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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CURRENT INTELLIGENCE WEEKLY SUMMARY

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F O R E W O R D

This is the first number of a new weekly secret publication of the Office of Current Intelligence which replaces the Current Intelligence Weekly.

The Current Intelligence Weekly Summary consists of a Summary of Contents and three Parts:

Part I, "Of Immediate Interest."

Part II, "Notes and Comment," on situations which may be of less urgency than the situations treated in Part I.

Part III, "Patterns and Perspectives"; articles in which relatively long-term trends are analyzed.



HUNTINGTON D. SHELDON
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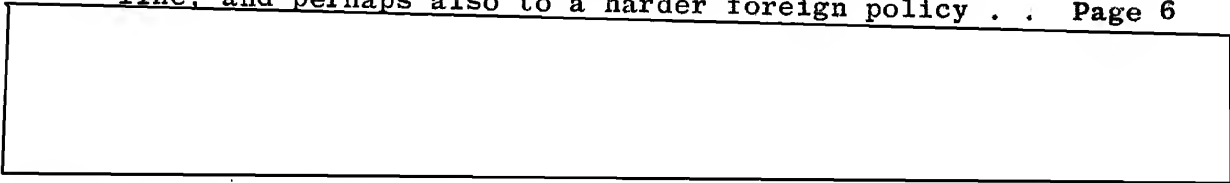
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Khrushchev has come up from fifth place in the listings of the all-powerful party presidium to the position of top man in the USSR in the 23 months since Stalin's death and is now in a stronger position than any other Soviet leader has been since Stalin died.

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THE 1955 SOVIET BUDGET Page 3

The 1955 Soviet budget indicates that the Soviet government, having re-evaluated its internal and international position, now intends to return to the 1952-1953 level of appropriations for defense. At the same time, allocations to heavy industry and transportation are to continue to increase and minor reductions are to be made in the proportions of consumption and investment in the total economic effort.

RECENT DEVELOPMENTS IN OVERSEAS SHIPPING IN CHINA TRADE . Page 7

Soviet shipping has withdrawn from the China trade since mid-1954 and sea-borne deliveries to Communist China from Eastern Europe have been diverted from North to South China ports. These developments have been accompanied by a decline in cargoes arriving in China from European bloc ports. This new shipping pattern was adopted by the bloc in response to seizures by the Chinese Nationalists.

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PART I

OF IMMEDIATE INTEREST

SOVIET LEADERS ADOPTING
MORE TRUCULENT MANNER

The "resignation" of Malenkov as prime minister of the USSR climaxes a six-week period of indications of controversy over domestic policy questions probably related to a reappraisal by the Soviet leaders of the international situation.

Although Malenkov restricted his confession of guilt and inadequacy mainly to his "insufficient experience" and failure in agriculture, he referred pointedly to the primacy of heavy industry as the only correct policy for overcoming agricultural difficulties. This suggests that Malenkov's eclipse is closely related to the policy controversy over the role of heavy industry in the Soviet economy and the intimately related question of defense expenditures.

The ouster of Malenkov does not necessarily mean that there will be another shift in economic direction in the immediate future. Malenkov's influence must have been eclipsed before publication of the 1955 budget, and his fall would seem to follow the shift in emphasis indicated by this budget, rather than to presage a new one.

In foreign policy, the basic elements of the Soviet position on current problems is unlikely to change, though a harder, more truculent manner toward the West is expected.

Bulganin's appointment as premier, together with Zhukov's

elevation to the post of minister of defense, will give the military added prestige and possibly added weight in policy deliberations.

Zhukov, the most popular of the Soviet military leaders, probably has a realistic view of international power relations and will support an independent military analysis of strategic factors in policy.

The selections of Bulganin to fill Malenkov's place suggests that some degree of "collegiality" will be preserved and that Khrushchev will not assume the reins of power completely, at least at this time. Khrushchev is, however, in a stronger position than any other Soviet leader has been since Stalin's death.

Khrushchev probably calculates that his interests will be better served if he plays the game in the cautious early Stalin manner, dominating the group from his post as first secretary rather than trying also to take over the formal mantle of leadership as Malenkov did in 1953.

Bulganin's influence may be seriously circumscribed by the keen dislike which regular army men are reported to feel for him as a result of his career as a "political marshal." He does not appear to have the prestige or power to balance Khrushchev's influence, which a stronger man like Malenkov or Beria would have had in the same position.

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COMMUNISTS PRESS U.S.
ON FORMOSA ISSUE

Moscow and Peiping are exploiting the general fear of war on the Formosa issue in an attempt to induce the United States' principal allies and the Asian "neutrals" to press Washington to reduce its commitments to the Chinese Nationalists.

The Communists presumably calculate that they will win a major victory if they succeed in this, and that they will also win if the United States, by refusing to reduce its commitments, isolates itself on the Formosa issue.

Chou En-lai's 3 February rejection of the United Nations Security Council invitation apparently was coordinated with Moscow. Soviet UN delegates on 31 January had expressed doubt that the Chinese Communists would accept the invitation. Moscow and Peiping presumably decided that they could obtain a better forum and more favorable agenda for negotiations than the UN offered.

Peiping is now pursuing the course of maintaining tension in the China area while expressing interest in "genuine" efforts to ease that tension. Molotov suggested to the British ambassador in Moscow on 4 February that a conference be held in Shanghai

or New Delhi this month--the conferees to include the Big Four, Communist China and the Colombo Powers.

Other suggested possibilities for exploring a ceasefire are Indonesia's proposal of mediation by the Colombo powers, or a personal approach by Nehru or Hammarskjold.

While the Communists might welcome either of these two suggestions as an opportunity to make trouble for the United States, there is as yet no indication that Peiping is prepared to alter its position. The Communists continue to assert that there can be no settlement short of an American withdrawal from the China area.

Molotov's speech to the Supreme Soviet on 8 February strongly reaffirmed the uncompromising Sino-Soviet diplomatic position. Molotov demanded that the United Nations condemn American "aggressive actions" and that the United States withdraw from Formosa.

He described the Formosa problem as strictly an internal Chinese affair. The new Soviet premier, Nikolai Bulganin, also referred to Formosa in a speech on 9 February, charging that the United States is following "a dangerous road" and asserting that the Communist Chinese people "can count on the help of its true friend, the Soviet people."

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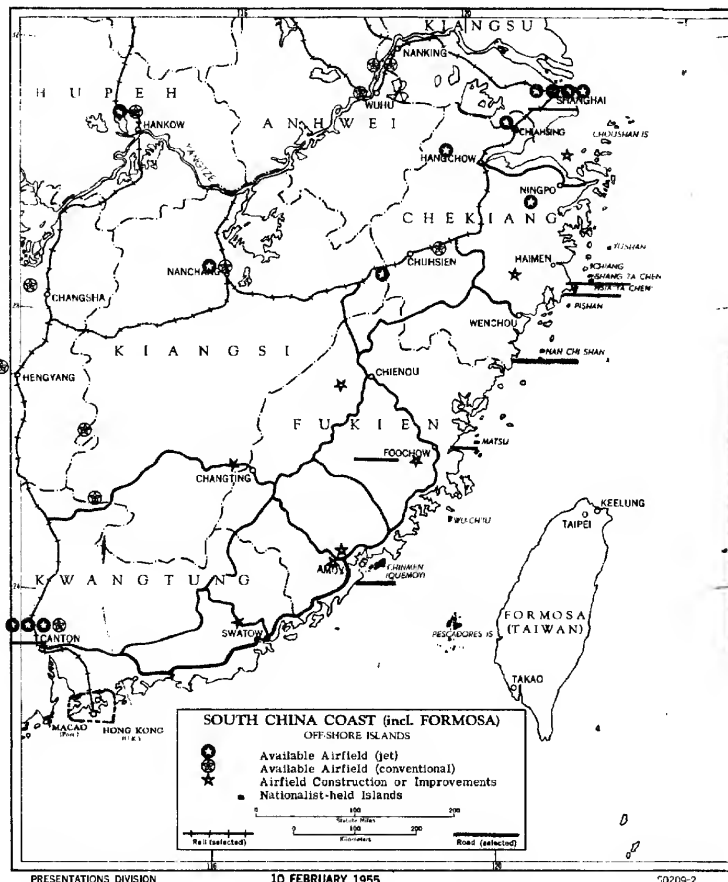
NEW COMMUNIST PROBING IN OFFSHORE ISLANDS LIKELY

New Communist probing operations are expected in the Nationalist-held island groups. Peiping appears likely to undertake such operations both to test American intentions and to increase pressure on the United States for a settlement on Communist terms.

A logical target for an early Chinese Communist military operation is Nanchishan, an island 85 miles southwest of the Tachens. The Nationalists have stated their intention to try to hold this island.

Probing is also expected in the Matsu and Quemoy island groups to the south. This could take the form of artillery, naval and

limited air attacks, or, perhaps the invasion of minor lightly held islands of these groups.



LONG CABINET CRISIS FORESEEN IN FRANCE

Failure by former premier Antoine Pinay to attempt investiture probably means a French government impasse of several weeks. A prolonged crisis would delay if not endanger approval of the Paris accords in the Council of the Republic, and might lead to renewed violence in North Africa.

Pinay, an Independent, was unable to overcome the Popular

Republicans' eagerness to reassure the electorate that they are still a party of the left. The Popular Republicans now are likely to be called upon to form a government, but their candidate will be handicapped by the antagonism of Pinay's conservative backers.

Pierre Pflimlin would probably be their first choice. The investiture of any Popular

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Republican would depend on Socialist support, however, and there is a possibility that the Popular Republicans may forego a try for the premiership in favor of an attempt at a left-center coalition including the Socialists.

Although the Socialists warned the Popular Republicans during the North African debate not to seek their support in forming a new government, there are indications that Socialist leader Christian Pineau, highly respected and moderate in outlook, is considering the advisability of heading a left-center coalition. Such a grouping would include Radical Socialists and would be dependent on some Gaullist support.

If these attempts fail, the Radicals would be next in line. René Mayer, considered the spokesman of Mendes-France's opposition, reportedly stepped aside in favor of Pinay on the first round. Acting Foreign Minister Faure, whom Mendes-France is reported to have proposed as his successor, is probably in a better position

to heal internal Radical Socialist dissension. Faure would be acceptable to most of the conservative parties and offers the assurance of continuity in domestic policy.

In view of Pinay's failure, the council will probably avail itself of the constitutional provision under which a cabinet crisis lasting more than eight days permits a council deadline to be postponed by a corresponding period. A long crisis would mean postponement of the 11 March deadline for council action on the Paris agreements. Such a delay would work against the agreements, and might encourage council sentiment for amending them.

There is little likelihood that a new premier would refuse to take up the Tunisian negotiations where Mendes-France left off. No immediate change is envisaged in France's policy toward Vietnam. Any new premier would probably be inclined to work more closely with the Diem government, although he would not be likely to withdraw the Sain-teny mission in Hanoi, at least in the immediate future.

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PART II

NOTES AND COMMENT

Molotov Reviews Soviet Foreign Policy

The tone of Foreign Minister Molotov's speech before the Supreme Soviet on 8 February was more bellicose than that of other recent top-level Soviet statements, but the speech did not indicate any substantial shift in Soviet foreign policy or contain specific threats of more forceful measures. It was cast in terms reminiscent of Khrushchev's speeches in 1954, which tended to be more bellicose than those of other leaders without differing notably in substantive policy.

Molotov bluntly repudiated the thesis that a third world war would cause world civilization to perish--the line expounded by Malenkov in March 1954--and emphasized that it would only destroy the capitalist system. He repeated, however, that the USSR stood for reducing international tension and declared that the improvement of Soviet-American relations is "fully possible."

The belligerent tone of the speech was evident in Molotov's claim that the United States now lagged behind the USSR in the development of hydrogen weapons, and in the charge, unusual in an official

speech, that several Western leaders, including Secretary Dulles, were candidates for the title of war criminal. There was also a specific attack on Churchill as an "outstanding ideologist of imperialism."

Molotov accused the Western powers of seeking to restore capitalism in the whole Orbit, including the USSR, but expressed optimism about the spread of "people's liberation movements" throughout Asia and Africa.

The statement that the Orbit countries will establish a united military command if West Germany rearms was more explicit than the threat to take "joint measures" made in the Moscow conference declaration of December 1954. The speech also revealed that the eight Orbit countries are negotiating a friendship and mutual aid treaty. Heretofore, East Germany and Albania have not had such treaties with the USSR.

Molotov added nothing new to the Soviet position on German unification and elections and while implying some vague liberalization of the Soviet stand on Austria, continued to make an Austrian treaty dependent on four-power agreement on Germany.

Moscow's and Peiping's Formosa Policy

The Communists learned at the Geneva conference that they could successfully exploit Western vulnerabilities in

direct negotiations. In particular, they tested and found flaws in the unity of purpose of Western governments when faced with the choice of fighting or negotiating over disputed Asian territory.

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Peiping, strengthened by its success at Geneva, immediately intensified its long-standing threat to "liberate" Formosa. As in Indochina, the Communists' capabilities for forcing an issue over Formosa and the offshore islands, with relatively limited risk to themselves, must have appeared good.

Moscow can approve such a campaign, calling as it does for the maintenance of pressure by the Chinese, while the USSR backs the validity of China's legal case.

This is a cheap strategy for Moscow as long as it does not actually lead to war. The role claimed by Moscow as international moderator left the way open for negotiations if the situation were to get out of hand. In all of its public pronouncements, Moscow took pains to limit its commitments to just such a role, carefully avoiding any Soviet military commitment to the "liberation" of the island.

As Peiping intensified its campaign against Formosa, the Soviet Union was faced by the threat of growing Western unity in Europe. Because of the inflexibility and sterility of its policy toward Germany, the

USSR was severely handicapped. The Kremlin leaders were in a better situation, however, regarding the present Formosa situation.

The pose of cautious moderator could be used not only to ensure that the situation did not get too far out of hand but also to challenge Western unity on an issue which was more promising than Western defense.

Moscow and Peiping stand to gain definite strategic advantages if they succeed in their handling of the Formosa crisis, whereas they will suffer only a minor loss in Peiping's newly won prestige if they are unsuccessful.

Communist leaders probably do not intend to engage in the "hazardous gamble" of general war. They presumably consider that Peiping can avoid such a dangerous development by resorting to negotiations at almost any point.

They appear to have deliberately chosen a course of action which--while it may involve considerable local military pressure by the Chinese Communists--is basically designed to lead to political gains in furtherance of the strategic objective of weakening the Western alliance and isolating the United States.

Khrushchev on Foreign Policy

In his interview with W. R. Hearst and Kingsbury Smith on 5 February, Khrushchev adopted the role of a senior Soviet statesman addressing a world-wide audience. The moderate and conciliatory tone of his remarks reflected the established Soviet line on such matters as coexistence, negotiations, trade, armaments control, reducing tensions and improving Soviet-American relations.

Khrushchev's earlier utterances on foreign policy were not always distinguished by such caution and restraint. During the past year, Khrushchev's statements, both public and private, have tended to be more bellicose and unpromising toward the West, particularly the United States, than have those of the other top Soviet leaders.

While Stalin was still alive, Khrushchev made fewer statements

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on international affairs than did the other leaders. He has yet to deliver a speech at a postwar anniversary celebration of the October Revolution. After Stalin's death, Khrushchev's published statements were devoted solely to domestic affairs until his election speech of 6 March 1954. Even in this speech, his remarks on international questions were brief, comparable in scope to those of lesser presidium-level speakers rather than to the authoritative pronouncements of Malenkov and Molotov. Similarly, he barely touched on international affairs in his speech to the Polish Party Congress on 11 March.

His first major pronouncement on foreign policy appeared in his address to the Soviet of the Union on 26 April 1954. He devoted one-third of this speech to foreign policy and spoke authoritatively on the subject. His remarks were considerably more vituperative than Malenkov's and included a strong personal attack on Secretary Dulles.

This speech was followed by two addresses in Prague on 12 and 15 June on the occasion of the Czechoslovak Party Congress.

Aside from his Peiping speech on 30 September devoted mainly to Sino-Soviet relations, he is not known to have made any other major public foreign policy statements until his recent interview with Hearst and Kingsbury Smith.

Khrushchev's 1954 utterances were heavily punctuated with references to alleged Western threats made against the USSR and warnings to those who would commit aggression against the Soviet Union. He frequently invoked the destruc-

tion of Hitler as a warning to the West.

Statements such as these convey the image of an extremely hostile West which needs constantly to be reminded that it is confronted by the powerful and alert forces of the Soviet bloc.

Four times in his 15 June address in Prague, Khrushchev referred to the West as the "enemy." So far as is known, there is no precedent for this in any of the other Soviet leaders' speeches since Stalin's death.

Another significant characteristic of Khrushchev's public addresses is the absence of any mention of the theme of Western disunity, so widely featured in Soviet propaganda since its definitive formulation in Stalin's Bolshevik article of October 1952. Khrushchev has not referred to the differences among the Western governments on political and economic relations with the bloc and has generally presented a hard image of two rigidly and inflexibly opposed camps.

He bitterly attacked Churchill in one of his Prague speeches at a time when Soviet propaganda was holding the British prime minister up as a "constructive" capitalist statesman in contrast to those who are "blinded by hatred of the Soviet Union." Khrushchev appeared to be reminding his audience that, ultimately, only enmity can be expected from Western leaders and that distinctions drawn between them can have no final significance.

It is possible that this apparent belief in the fundamental enmity of the West may lead Khrushchev to doubt the

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effectiveness of diplomatic maneuvers aimed at exploiting Western disunity. His speeches are almost devoid of references to Soviet diplomatic proposals.

While in his March 1954 election address he reaffirmed Malenkov's dictum that international questions could be settled by negotiations, he did not repeat this statement in his more comprehensive and forthright statements which followed. It should be noted, however, that he assured Hearst on 5 February that there were "no points of issue with America which cannot be solved."

In his conversations with Western visitors and officials, Khrushchev appears to have relied more on Communist clichés than did Malenkov.

An interesting exchange took place during a Czech reception in December 1953. Malenkov made a few remarks devoted to friendly relations and peaceful construction, and said that the USSR would give serious consideration to any proposals directed toward peace. Molotov followed with observations in a similar vein.

Khrushchev, however, started on a different line. He praised the Czech army, and said it would be able, together with the Soviet armed forces, to inflict a lesson on any would-be aggressors. Malenkov was visibly annoyed with this and, in an audible stage whisper, said to Khrushchev, "Peace, for peace." Khrushchev immediately fell into line.

At the reception in Moscow on 7 November 1954, Khrushchev initiated a long discussion with French ambassador Joxe on the Paris agreements and French-Soviet relations. While his remarks were not tough or

threatening, he did express himself in more vigorous and forthright terms than did the other leaders. Malenkov's brief intervention in the discussion was quiet and moderate, and Molotov attempted vainly to restrain Khrushchev, saying that this was neither the time nor the place to discuss such matters.

Khrushchev also attacked the Paris agreements during the two-hour discussion between the top Soviet leaders and Ambassador Joxe which followed the celebration on 10 December of the anniversary of the Franco-Soviet treaty. Malenkov played a more prominent part in this discussion than he had in the 7 November exchange, but his remarks apparently were more restrained and less emotional than were Khrushchev's. Molotov again refused to enter seriously into the conversation and rather ostentatiously read and signed official papers which were brought to him during the dinner.

At the dinners honoring the visiting British Labor delegation in August 1954, Khrushchev made a speech described by Sam Watson as "viciously anti-American,... brutal, violent and hard." He emphasized the USSR's desire for peace, but warned of what would happen to any nation which attacked the Soviet Union. He also said that the Soviet government would make no concessions whatsoever in its foreign policy, even though it deeply desired peace.

These remarks and the generally rigid and harsh tone of his public speeches, suggest that, in foreign policy, Khrushchev is guided by a firm conviction that the Soviet bloc must rely on military power to achieve its major goals and

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that diplomacy must play a subordinate role.

Addressing a mass rally in Prague on 15 June, he warned his audience that "peace can be won by good labor, by a rise in our industry and agriculture, and by the daily strengthening of our armed forces. Therefore, comrades, as Comrade Lenin said: 'So long as capitalist encirclement exists, it is very difficult and complicated to come to terms.' We shall struggle ceaselessly, sparing no effort for peace, but peace must be consolidated by our toil, our work."

Referring to the intensity of the Soviet efforts to overtake the West in nuclear weapons, he said: "We have done everything possible." He asserted that Soviet leaders are not among the "nervous ones" and strongly implied confidence in the USSR's capability to counterbalance Western nuclear power by the threat of reprisal. "If they know what a bomb means, so do we," he declared.

The divergence of Khrushchev's thinking from the established Soviet foreign policy line, as reflected in this speech, was clearly revealed when a substantially revised version of the address was later broadcast from Prague and published in Pravda. The more inflammatory passages in the speech were omitted or emended in this modified version, which conformed more closely to the established foreign policy line.

The corrected text softened the implications of Khrushchev's remarks by eliminating the reference to capitalist encirclement and by changing "daily strengthening our armed forces" to "consolidate the defensive capacity of our countries." The revised version also dwelt more on the positive concept of settling international problems peacefully, in contrast to Khrushchev's statement in the speech that, "so long as the enemies do not want to conclude a treaty with us, we must be strong."

Malenkov's Current Status

The inclusion of Malenkov's name in a list of party presidium members who attended a concert on 8 February suggests that he is at least nominally still a member of that powerful body. He has also been assigned the functions of deputy chairman of the Council of Ministers and minister of electric power stations.

The Ministry of Electric Power Stations is one of the most important of the basic economic ministries. Malenkov is not known to have had any experience in this field.

Malenkov's responsibilities as deputy chairman of the Council of Ministers are not clear. It is possible that he will take over the management of the whole electric power complex, now comprising three ministries.

M. G. Pervukhin, party presidium member and deputy chairman of the Council of Ministers, has been responsible for electric power since Stalin's death, although he has not been specifically identified in this field since mid-1954.

Presumably, Malenkov's actual power is severely

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limited, and his retention on the presidium and new assignment probably are designed to provide a "cooling-off" period

prior to any further demotion and to assuage fears of a violent purge following his demotion.

Western European Reaction to Change in Soviet Leadership

Most Western European spokesmen believe that Malenkov's resignation and the increase in Khrushchev's influence will lead to a more bellicose propaganda line, and perhaps also to a harder foreign policy.

The British Foreign Office feels that if Khrushchev becomes "boss," the USSR will be under a leadership less intelligent, more emotional, and tougher than that of the collective leadership under Malenkov.

The admission that the Soviet leadership is not infallible is expected to have repercussions in the Satellites.

Italian premier Scelba believes that any crisis within the USSR throws further confusion into external Communist circles. He instructed his press chief to comment along

the line: "The Russians have chosen guns, not butter."

A French Foreign Ministry spokesman called the change an "internal affair." French political party leaders who believed previously that talks with the USSR should be held before the Paris accords are ratified argue that the change in Soviet leaders makes such talks even more desirable. Those politicians who have opposed talks before ratification continue to do so.

In West Germany, as elsewhere in Europe, government leaders should be able to capitalize on what they interpret as a "tougher" Soviet line at the expense of their opponents who advocate a "soft" policy toward the USSR. Now, as at the time of the Korean outbreak, increased Communist belligerency would tend to stem, at least temporarily, talk about the likelihood of an early understanding with the Communists.

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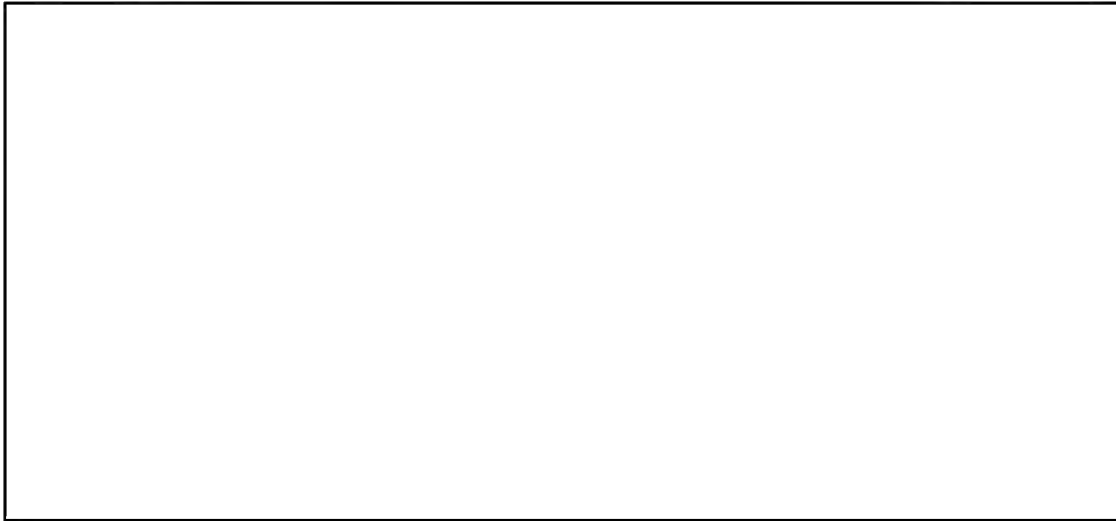
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West Berlin:

Several recent reports suggest that the East Germans have plans to isolate West Berlin in the event of ratification of the Paris agreements, and perhaps even to institute a blockade.

In fact, the East German Foreign Ministry, in a legal study prepared in late 1954, concluded that the Western Allies have a right to maintain a garrison in West Berlin. Since a blockade would have the ultimate purpose of forcing the Allies out of Berlin, the Foreign Ministry study suggests that measures of isolation will be limited to those required by internal security needs connected with conscription and the establishment of armed forces.

Such controls could include the interruption of intersector rail traffic, a measure which cannot be excluded as a possibility after ratification of the Paris agreements.

There are no known plans to impose a blockade on Berlin.

Unrest in South Vietnam

Premier Diem's government in South Vietnam may soon be forced to deal with increasing dissidence on the part of the powerful politico-religious sects.

The premier's progress toward consolidating his regime and extending its authority has been accompanied by clear signs of restiveness among the sects.

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For instance, the recent rallying to the government of Cao Daist general Trinh Minh The and his estimated 4,000 troops has provoked a strong reaction from a number of Hoa Hao leaders.

Hoa Hao general Soai told the American embassy in Saigon on 9 February that violent conflict might break out at any moment between his forces and those of the Vietnamese army in Southwest Vietnam.

There is also a distinct possibility that orthodox Hoa Hao units will come to the assistance of the forces of Ba Cut, a dissident Hoa Hao leader,

against whom the government has opened a major military campaign.

Several factors militate against an early solution of this problem. Diem has indicated that he is opposed to subsidizing the sects as the French did. He would be unable to integrate more than a few of their units into the national army without seriously damaging morale in the army, which is in the process of releasing large numbers of regulars. Finally, Diem's curtailment of the privileges of the Binh Xuyen organization has caused it to intrigue with the other sects against his regime.

Tension in Northern Laos

The situation in northern Laos remains tense and renewed hostilities between government and Pathet Lao forces could result.

An understrength Viet Minh battalion was reported to have entered Sam Neua Province from Vietnam on 31 January with the purpose of reinforcing Pathet Lao troops surrounding a small Laotian government force near the provincial capital.

This is believed to be the first Viet Minh violation of

the Laotian border since the truce. The government has reacted by sending a battalion into the southwestern corner of the province to forestall further Communist encroachment there.

Such movements of military units could easily lead to further armed clashes. Moreover, the tension is likely to be increased as a result of another suspension in the government's negotiations with the Pathet Lao, this time only one day after their resumption. The chief government negotiator is pessimistic over the prospects that the talks will be reopened.

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Election Prospects
in Cambodia

Communist prospects in the Cambodian elections scheduled for April have been considerably enhanced by the recent election of a Communist-inclined directorate of the Democratic Party, the most influential political organization in Cambodia. By this success, the Communists have gained a foothold in the party which has won substantial victories in both previous national elections.

The possibility also exists that anti-Communists will bolt the party, leaving the leftists in undisputed control of its machinery and paving the way for Son Ngoc Than, the king's chief political rival, to take over its leadership.

The American embassy in Phnom Penh warns that under these circumstances, the great masses of the population --ignorant of what is going on--would give the leftists "powerful and unmerited support" in the April elections.

Japan-Orbit Relations

The Japanese cabinet decided on 4 February to accept the Soviet proposal for negotiations to normalize relations between the two nations. The decision was officially communicated to the Soviet United Nations representative on 5 February by Japan's observer at the UN, who suggested New York as the place for the talks.

The decision is a temporary victory for the cautious policy of Foreign Minister Shigemitsu. The short time remaining before the election on 27 February will be the primary factor in preventing

immediate negotiations along the "soft" line advocated by Prime Minister Hatoyama.

The Foreign Ministry presumably will find it politically possible in the postelection period for Japan to make stronger demands than it can now make for Soviet concessions as a prerequisite for a settlement.

The ministry has long held that Moscow should return the Habomai and Shikotan Islands, recognize Japanese fishing rights off Siberia and repatriate war prisoners prior to any negotiations for diplomatic relations.

The Afro-Asian Conference

The Communist delegations at the Afro-Asian conference are expected to pursue a shrewd and forceful anti-Western line.

The Communists probably will assume a reasonable attitude toward all those present while denouncing the Western nations, particularly the United States, as exploiters of Africa and Asia.

They may cite the Manila pact, the Formosa treaty, the Collins mission, and the American agricultural surplus disposal program as measures designed to perpetuate Afro-Asian "inferiority."

In addition, the Communists are almost certain to propose closer future consultations among the countries present and more co-operation on the basis of the "five principles of coexistence."

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The Andhra Elections:

The first elections to be held in the Indian state of Andhra, beginning on 11 February, will determine whether the Communist Party can win control of an Indian state. The outcome of the elections is uncertain, since the Congress and Communist Parties appear to be evenly matched, and both are ready to claim victory.

The Communists, with a strong state organization, have nearly a two months' start on the Congress Party in electioneering and are reported to be making an all-out effort.

The Congress Party, hampered by a local split, reportedly is engaged in a desperate drive, including "strong-arm" tactics, to prevent a Communist victory.

S. K. Patil, the party's strongest organizer, has been sent to Andhra, apparently with unlimited authority and considerable funds.

The Congress Party will probably try to rig the elections. In the event of a Communist victory, the Congress Party would probably claim mismanagement and disorder and immediately return the state to its present status under president's rule--that is, direct administration from New Delhi.

Imposition of president's rule would not solve the basic problem, however, since it would be an open admission of the Congress Party's inability to rule Andhra by democratic means.

Pakistan

Governor General Ghulam Mohammad left Karachi on 30 January for a two-week rest and medical treatment in Switzerland.

A decline in his health in recent months raises the critical question of his probable successor as leader of the small group of men who rule the country. General Iskander Mirza, minister of the interior, is Ghulam Mohammad's most likely successor as the

strongest power in the Pakistani government.

Mirza is forceful but does not have Ghulam Mohammad's talent for political maneuvering. His blunter approach to government would be likely to create open resentment among other political leaders.

Under Mirza's leadership the ruling group therefore would probably be less successful than Ghulam Mohammad in maintaining order without the use of force.

Uneasiness in North Africa:

The fall of the Mendes-France government on 5 February discouraged the Tunisian nationalists. They are taking the

position that they expect the next French cabinet to honor the agreement on Tunisian autonomy which had been reached with Mendes-France. They have announced that any attempt to

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scuttle the gains they have won would cause violence.

In Morocco, civil disorders which had practically ceased for three weeks were renewed on 2 February coincident with the opening of the Paris parliamentary debate on North Africa. Disorders are expected

to increase as a result of the French cabinet's fall.

The settler elements in Algeria, which opposed Mendes-France's North Africa policy, are elated over his downfall. Native reaction is generally apathetic.

Iraqi-Egyptian Differences

The collapse on 6 February of the Cairo conference called to censure Iraq's proposed treaty with Turkey is a triumph for Iraq, which is now expected to sign the pact within "a few weeks."

An effort is now under way, sponsored by such relative neutrals as Lebanon and Jordan,

to delay Iraqi action in the hope of somehow placating Egypt. Any faltering or delay by Iraq, while it tries to convert the proposed treaty into a broader regional security arrangement, or negotiates with Turkey over the terms of the treaty, would encourage Arab maneuvering.

Satellites Ease Travel Restrictions

Satellite citizens are being permitted to visit relatives in Western Europe, and increasing numbers of Western nationals as well as Satellite refugees are being encouraged to visit the Satellites. These conciliatory gestures to the West appear to be tied in with a general Orbit "soft" line toward emigrés calculated to encourage them to return home.

Hungary has announced plans to re-establish its tourist industry in 1955, and Poland apparently intends to open an office of the state-controlled travel agency in London. In late January, Hungary permitted 700 foreign visitors to attend the European ice-skating championships in Budapest. Among them were 200 Hungarian emigrés, the first such group to visit the country since the war.

Czechoslovakia has similar plans for a sports festival this

summer and is making a special effort to encourage visits of tourists of Czech and Slovak origin at that time.

Some selected Hungarians were allowed to visit relatives in Paris last Christmas, and there have been reports that some Rumanians will be permitted similar visits. The Czech government has indicated to British officials in Prague that persons with dual Czech and British citizenship living in Czechoslovakia will be allowed to visit relatives in Britain.

The Reuters agency in London has obtained agreement from the Czech news agency, CTK, to admit a resident correspondent, the first Western press access to Czechoslovakia since 1952. Negotiations between the Czechs and the French Press Agency for a similar agreement are under way.

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Costa Rica and Nicaragua

Continued Nicaraguan harassment has strengthened the position of Costa Rican president José Figueres.

The futile rebel attack at Los Chiles on 5 February and the ineffective "civil resistance" campaign of Figueres' domestic opposition have further strengthened Figueres' already strong position, both at home and abroad.

The Nicaraguan government, in deliberately deceiving the Organization of American States (OAS) military observers by transporting "interned" Costa Rican rebels through Nicaraguan territory to make the attack on Los Chiles, has presented the OAS with a direct challenge and has increased the possibility of formal OAS

condemnation of Nicaragua as an aggressor.

Nicaraguan president Somoza has made veiled threats to invade Costa Rica in response to alleged violations of his border by Costa Rican forces operating against rebel elements. It is unlikely, however, that Somoza will take overt action against Costa Rica.

Leaders of Figueres' domestic opposition, including former president Ulate, have lost much of their following as a result of the apathy they showed at the height of the revolt and their present provocative opposition to Figueres. There is now a danger that Figueres' more fanatical backers may, despite the president's urgings of moderation, resort to violence against opposition elements.

El Salvador

The administration of Salvadoran president Oscar Osorio is threatened by mounting dissatisfaction among top army leaders and by the hostility of the regimes in neighboring Guatemala and Nicaragua.

Col. Carranza Amaya, inspector general of the Salvadoran army, seems to be the leader of a strong army faction which opposes Osorio's contention that he should be succeeded next year by a civilian and blames him for the apparent growth of leftist influence in his administration.

Osorio seems to be losing the confidence of other army leaders as well, though he still enjoys wide popular support.

Osorio's "neutrality" in recent Central American crises has earned him the distrust of Presidents Castillo Armas of Guatemala and Somoza of Nicaragua, who feel that Osorio was sympathetic to the former pro-Communist Guatemalan government and that he is backing the current Figueres regime in Costa Rica.

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PART III

PATTERNS AND PERSPECTIVESKHRUSHCHEV'S RISE IN POWER SINCE STALIN'S DEATH

Party First Secretary N. S. Khrushchev has come up from fifth place in the listings of the all-powerful party presidium to the position of top man in the USSR in the 23 months since J. V. Stalin's death. He is now in a stronger position than any other Soviet leader has been since that time.

The stage for his rapid rise was set in March of 1953, when G. M. Malenkov resigned from the party secretariat, leaving Khrushchev as senior man on that body. The secretariat exercises immediate supervision over the powerful party apparatus and controls most personnel appointments. It was the vehicle for Stalin's rise to power in the 1920's.

Following the purge of L. P. Beria in July 1953, Khrushchev moved up from fifth to third position in the listings of the party presidium. Then, in September of that year, a plenary meeting of the party central committee made him first secretary of the party and heard his report detailing the important new agricultural program.

Observers noted two hints of a Malenkov-Khrushchev rivalry at that time. First, Khrushchev failed to credit Malenkov with the formulation of the agricultural program, although Malenkov had first outlined it in a speech before the Supreme Soviet a month earlier. Second, Khrushchev attended a party plenum a couple of months later which removed V. M. Andrianov, long considered a Malenkov protégé, from his job as Lenin-grad party boss.

During the latter months of 1953, Khrushchev continued to receive considerable publicity in connection with

agriculture, and in February 1954 he made another highly publicized report to the central committee outlining the results and prospects of the agricultural program. By this time Khrushchev was receiving more personal publicity than any other top Soviet leader and had definitely outstripped Molotov to become second man in the hierarchy.

The extent of Khrushchev's rise was fully revealed in April 1954, when he and Malenkov each gave a principal address to one of the houses of the Supreme Soviet, Khrushchev appearing before the slightly more important Council of the Union.

Khrushchev's personal publicity continued to exceed that of other Soviet leaders during the spring, and reached a point where it threatened to shatter the facade of collective leadership. He was active in many aspects of domestic affairs and led the Soviet delegation to the Polish and Czech party congresses.

In June, however, Khrushchev's position appeared to suffer. A facade of strict collectivity was reimposed, and he apparently did not give the major report to the central committee meeting held that month and was not publicly associated with its decisions.

The British Labor Party delegation which visited Moscow in August and dined twice with the leading members of the party presidium received the distinct impression that Malenkov was the leader of that group and was much more able an individual than Khrushchev. In fact, this sentiment was echoed by almost all

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Westerners who met the two men at social gatherings during the summer and fall. The most recent statement to this effect came from their dinner with the French ambassador on 10 December.

Khrushchev's position again improved markedly in September 1954, however. He led the well-publicized Soviet delegation to China and signed the important Sino-Soviet agreement concluded at that time. On his way back from China, he made an extensive inspection trip through the Soviet Far East and went on to Tadzhikistan and Uzbekistan. These journeys gave Khrushchev a valuable opportunity to make contacts in many areas of the USSR and cast him--in the eyes of many local party and government officials--in the role of principal spokesman of the regime.

Khrushchev's personal publicity increased in connection with these trips and his other activities as party first secretary. He was included in lists of Lenin's co-workers and "leading central committee workers sent directly to war work" which pointedly excluded Malenkov, and his name appeared with increasing frequency in the Soviet press.

During the late fall Khrushchev's public activity increased still more. He acted as principal spokesman of the regime in an increasing number of fields, and on 7 December he made a speech to a conference of construction workers which foreshadowed the greater emphasis officially accorded the importance of heavy industry later in the month.

In a speech to a gathering of Komsomol members on 7 January, Khrushchev, contrary to previous practice, stressed his close personal relationship with Stalin, and on 10 January, Khrushchev's name was linked with Lenin's when he signed a central committee decree changing the date and character of the celebration of Lenin's memory.

A striking sign of Khrushchev's growing importance came out of another central committee meeting, commencing on 25 January. A report to the plenum on increasing livestock production made by Khrushchev on that date heavily stressed the importance of heavy industry. It equated the position of those "woebegone theoreticians" who had underestimated the importance of heavy industry with that of Bukharin and Rykov, politburo members who were first demoted and then shot in 1938 for "rightist deviations."

This speech, which occupied six pages of Pravda on 3 February, the opening day of the current Supreme Soviet session, set the tone for the modification of the "new course" effected at that session and made Khrushchev the principal spokesman for that important shift in policy.

The awareness of at least some of the Supreme Soviet delegates as to Khrushchev's leading position was evidenced by the fact that over half the speakers at that meeting mentioned his name in their reports while none of them cited Malenkov.

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THE 1955 SOVIET BUDGET*

The 1955 Soviet budget, announced on 3 February, indicates that the Soviet government, having re-evaluated its internal and international position, now intends to return to the 1952-1953 level of appropriations for defense. At the same time allocations to heavy industry and transportation are to continue to increase and minor reductions are to be made in the proportions of consumption and investment in the total economic effort.

Revenue measures are designed to reduce sharply the excess purchasing power. Consumers' goods prices evidently will not be reduced this year.

The funds budgeted (see table I) should allow the Soviet

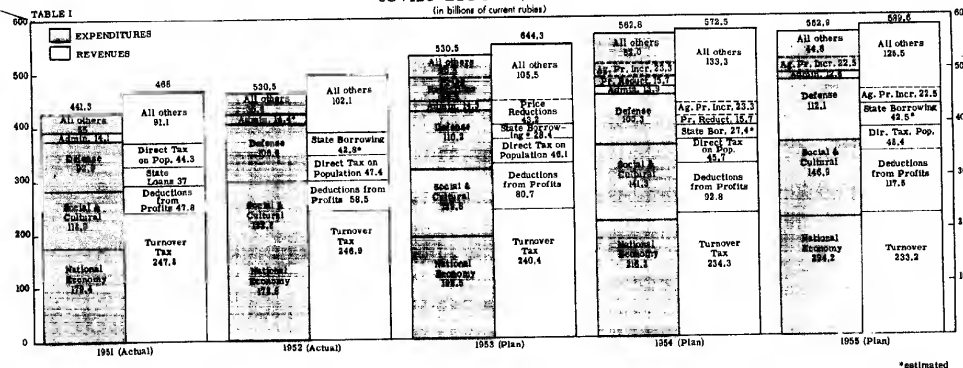
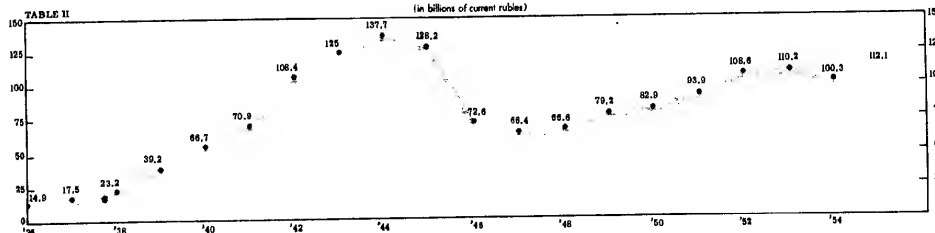
*This report was prepared jointly by the Office of Current Intelligence and the Office of Research and Reports.

Union to realize its Fifth Five-Year Plan goal for gross industrial output, to increase substantially the procurement of new and modern military hardware, and to continue to enlarge the absolute level of consumers' goods output.

The Soviet Union has thus apparently decided to improve its already formidable military capability, but does not intend an immediate all-out mobilization.

Defense Expenditures

The budget allocates 112.1 billion rubles for explicit military expenditures, a 12-percent increase over 1954 allocations. These expenditures will be at a postwar high if the allocation is completely utilized--although there is considerable evidence to indicate that no recent defense budget has been fully spent (see table II).

SOVIET BUDGETS, 1951-1955
(in billions of current rubles)ANNOUNCED SOVIET DEFENSE EXPENDITURES 1936-1955
(in billions of current rubles)

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The amount officially announced each year is believed to cover the cost of maintaining and training the military establishment and of procuring military end items. The explicit allocation for defense does not cover investment in, or operations of, plants where developmental research on new weapons takes place.

If, as seems likely, the personnel strength and administrative costs of the Soviet military establishment remain relatively unchanged, the increase of 12 percent in the allocation to the military establishment will be utilized primarily for procurement of military end items.

In monetary terms, provision for procurement of weapons and equipment could increase over that provided in the 1954 budget by a maximum of about 15 percent, bringing allocation for military procurement to a postwar peak. Production of military items in 1955 may not increase by this much, however, since some of the allocation may be devoted to production in future years.

A part of this increase probably resulted from a Soviet conclusion that the international situation required greater military preparedness, and perhaps also from a decision to increase military assistance to the Satellites and China.

The rise is also partly a result of the increasing cost of modern, complex weapons with which the Soviet armed forces are being re-equipped, and may reflect long-planned increases in output of certain specific types of equipment.

Expenditures for Heavy Industry

Planned budget allocations to heavy industry are to increase

by a very large amount--more than 21 billion rubles--over the 1954 level (see table III). Investment in heavy industry, however, is scheduled to increase only 3.5 billion rubles. This is in marked contrast with previous years, when heavy industry total allocations and investments increased proportionately.

In addition to capital investment, allocations from the budget to heavy industry have historically included such items as capital repairs, subsidies, and increments to working capital. Aside from changes in accounting procedures, there is no apparent reason for such expenses to jump suddenly this year.

There are, however, several possible explanations for this increase. Atomic energy expenditures in recent years are believed to have been included in the "other" category of "financing the national economy." Since the "other" category is to include 9 billion rubles less in 1955 than in 1954, some expenditures, hitherto concealed, probably including atomic energy, may have been transferred elsewhere in the budget, perhaps to the allocation for heavy industry. The increase under heavy industry is much greater, however, than the decrease in the "other" category.

It is also possible that major increases in expenditures connected with a new or developing military program--such as pre-series production of guided missiles--may be included in this part of the budget.

Expenditures for Agriculture and Consumers' Goods

Budget allocations to agriculture and the consumer industries are scheduled to decline by 12 to 15 percent in 1955. Investment in these

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parts of the economy, however, will probably decline by a lesser amount and will still be far above the 1952-1953 level. As a result of this and of the high rate of investment in these sectors during 1954, there probably will not be any substantial downward revision of "new course" goals for 1955. The rate of expansion in consumer sectors of

the economy, however, will definitely fall below the 1954 planned rate.

Since most of the decline in budget allocations to agriculture apparently resulted from elimination of subsidies to state farms, most elements of Soviet agriculture, particularly the "new lands"

TABLE III

	Billions of rubles	
	1954 (Plan)	1955 (Plan)
<u>Soviet Budget Expenditures</u>		
Financing the national economy	216.4	222.4
Heavy industry	79.7	101.2
Light and Food industry	12.6	10.6
Agriculture & Procurement	62.5	55.1
Transport & Communications	21.5	23.0
Other	40.1	32.5
Defense expenditures	100.3	112.1
Social & Cultural expenditures	141.4	146.9
Other known allotments	30.9	24.8
Undisclosed residual	34.8	34.2
TOTAL REAL EXPENDITURES	523.8	540.4
Artificial expenditures*	39.0	22.5
Total Announced expenditures	562.8	562.9
<u>Soviet Budget Revenues</u>		
Turnover Tax	234.4	233.2
Deductions from profits of enterprises	92.8	117.5
Taxes on population	45.7	48.4
State loans (including increase in savings of pop.)	27.4	42.5
Other revenue	133.2	125.5
TOTAL REAL REVENUES	533.5	567.1
Artificial revenue*	39.0	22.5
Total Announced revenue	572.5	589.6

*In this year's budget, there is only one clearly artificial entry under both expenditures and revenue. This is an entry of 22.5 billion rubles for increased procurement and purchase prices in agriculture. In 1953 and 1954, there was a second artificial entry, an allocation to cover the annual price reductions on consumer goods. The size of the total budget is thus artificially inflated less in 1955 than it was in 1953 and 1954.

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program, probably will receive increasing attention.

Social and Cultural Expenditures

Expenditures for social and cultural purposes are to increase moderately from 141.6 billion rubles in 1954 to 146.9 billion in 1955. The fact that these expenditures are continuing to rise is further evidence that the Soviet Union intends to achieve a gradual improvement in strategic capability, rather than immediate, all-out mobilization.

Capital Investment

Total capital investment is scheduled to drop slightly to 167.2 billion rubles in 1955 (see table III). Since investments in heavy industry and transport and communications combined are to increase about 4 percent, the decrease must come from other sectors of the economy. The failure of investment outlays to increase substantially jeopardizes the achievement of the capital investment goal of the Fifth Five-Year Plan.

The slight decline in investment in the 1955 budget presumably reflects an unwillingness to increase long-range commitments, and a decision to direct the increment of the economy's growth to end-item production, an important share of which apparently is to be devoted to military production.

The decision to reduce the rate of growth in investment may also have been influenced by the difficulties which the Soviet Union has encountered in completing investment projects. In words similar to those used two months earlier by Khrushchev at the Soviet construction conference, Finance Minister Zverev noted recently that the volume of unfinished building was

increasing, and that it would be necessary in 1955 to concentrate on the completion of already planned projects, rather than launch a large number of new projects.

Administrative Expenditures

Administrative expenditures are to be reduced more than 10 percent, from 13.9 billion rubles in 1954 to 12.6 billion for the current year. The Soviet regime placed heavy emphasis throughout 1954 on the need for reducing administrative costs, and the new budget shows that this effort will continue.

As a part of this drive for economy and efficiency, a number of new republic ministries were set up in 1954 to take over former all-union activities, i.e., the Ministries of the Oil Industry in Azerbaijan, and of Ferrous Metallurgy in the Ukraine. The budgets for these republics did not change substantially, indicating that the new republic ministries are still to receive their investments and other new resources from the all-union budget, and have been established as decentralized entities only for purposes of administration.

Budget Revenues

Revenue measures outlined in the budget are designed to reduce sharply the excess purchasing power which has resulted from the achievement a year ahead of time of the Five-Year Plan goal for increasing total wages. This goal was reached early as a result of widespread increases in employment beyond planned levels by economic enterprises, and by the cumulative effects of successive price reductions on consumers' goods during the period 1950 through 1954.

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The excess purchasing power will be reduced by the doubling of the annual state loan, which will return to the 1952 level. Furthermore, the budget indicates that no significant reduction in the prices of consumers' goods will occur this year.

Increased deductions from profits of state enterprises and the doubling of the state loan are to be the primary sources of increased revenues. Turnover taxes are planned to yield somewhat less in 1955 than in 1954, 233.2 billion rubles as opposed to 234.4 billion last year. This seems abnormally low, since trade

turnover in 1955 was scheduled to have been at least 10 percent higher than in 1954.

The most likely cause of this reduction is that turnover tax rates are to drop and thus allow the profits of producing enterprises to rise. The state then would receive increased revenue in the form of deductions from profits rather than from turnover taxes, and could claim that the burden on the population has thus been reduced. The reduction in turnover tax may simply mean, however, that the 1955 goal for trade turnover has been revised downward.

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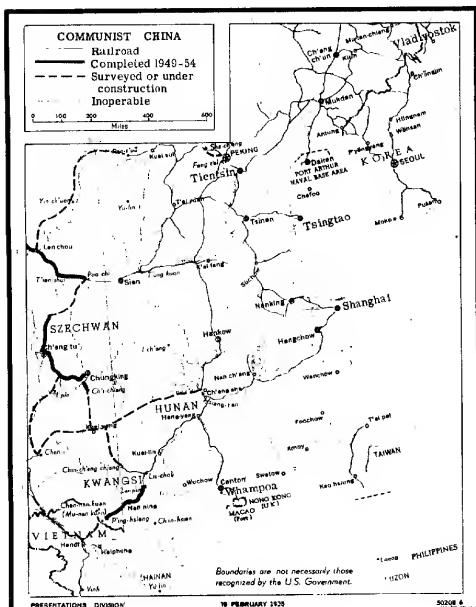
RECENT DEVELOPMENTS IN OVERSEAS SHIPPING IN CHINA TRADE

Soviet shipping has withdrawn from the China trade since mid-1954 and sea-borne deliveries to Communist China from Eastern Europe have been diverted from North to South China ports. These develop-

ments have been accompanied by a decline in cargoes arriving in China from European bloc ports. The new shipping pattern, adopted by the bloc in response to seizures by the Chinese Nationalists, is apparently to be maintained indefinitely.

Soviet shipping withdrew almost entirely from the China trade after the seizure of the Soviet tanker Tuapse on 23 June 1954. Eight Soviet freighters and tankers arrived in China in the last half of 1954, but none is known to have loaded for China since last July.

Another major effect of Nationalist disruption of shipping has been the recent reluctance of both Communist and Western-flag ships from European bloc ports to touch at Chinese ports north of Formosa. In the last six months of 1954 only six ships from European bloc ports went to North China. They either carried nonstrategic goods or traveled east of the Philippines and well east of Formosa.



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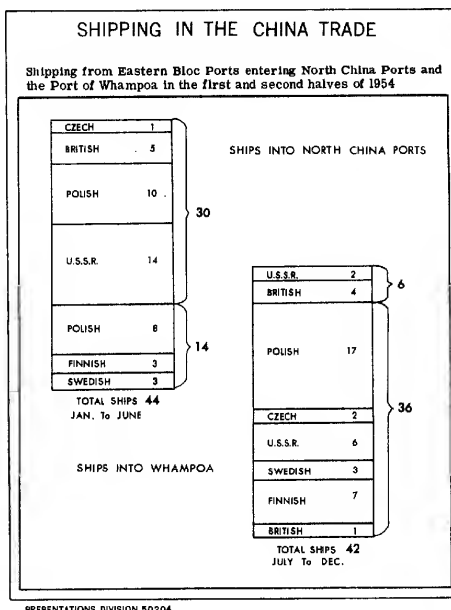
Peiping thus is unable to use its recently expanded northern ports effectively and an added strain is placed on north-south rail communications in carrying imports, now off-loaded in South China, to their normal destination in the industrial north.

As a result of this disruption of shipping, sea-borne imports from the Satellites were probably less than they would have been and overland deliveries larger. The tonnage of cargoes delivered to China in vessels from Satellite ports in 1954 dropped about 10 percent below the 1953 figure of 670,000 tons, but these cargoes do not accurately represent Sino-Satellite trade as they include a large tonnage of transshipped goods of Western origin.

Since transshipments appear to have declined, the portion of these cargoes originating in the Satellites may not have dropped or may have increased slightly. Evidence that a smaller tonnage of Western goods was being routed through the Satellites to China in 1954 than in 1953 was the rise in direct shipping from Western Europe to China. This occurred

despite a large drop in officially recorded trade with China.

With the completion later this year of the new, shorter railroad through Mongolia, the growing pressure to expand the volume of Sino-Satellite trade, probably an even greater proportion of goods will move overland in the coming year.



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